

# HIPAA inSight

Health Insurance Portability and Accountability Act

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## Welcome to HIPAA

**T**eamwork led to the success of Y2K and will again be called upon as the *entire* health care industry is faced with an even greater challenge — compliance with the Administrative Simplification provisions of the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA).

The Division of Health Care Financing (DHCF) is introducing *HIPAA inSight* to:

- Communicate various HIPAA issues.
- Offer information that may help you understand how HIPAA will change the way you interact with DHCF-administered programs.
- Keep you informed of the DHCF's progress towards HIPAA compliance.

In addition to sharing our analysis of the HIPAA standards, the publication will focus on the ways in which HIPAA affects DHCF systems and processes. This sharing of information is intended in good faith. If any part of our analysis is later determined inaccurate, the Federal Register will govern.

Although HIPAA legislation is targeted at standardizing electronic transactions, *HIPAA will also affect many aspects of paper claims submission*. Therefore, all providers participating in health care programs administered by the DHCF, such as Medicaid, BadgerCare, and the Health Insurance Risk Sharing Plan (HIRSP), as well as billing vendors, Medicaid HMOs, and other managed care programs will receive *HIPAA inSight*

as an insert to the *Wisconsin Medicaid and BadgerCare Update*. While the *Update* is published monthly, we will only include *HIPAA inSight* as an insert as information becomes available and as business solutions are developed.

### HIPAA-related Web sites

[www.hcfa.gov/medicare/edi/hipaaedi.htm](http://www.hcfa.gov/medicare/edi/hipaaedi.htm)

Includes a comprehensive list of HIPAA-related Web sites, along with a summary of what can be found on each.

[aspe.hhs.gov/admsimp/](http://aspe.hhs.gov/admsimp/)

Contains updated schedules and frequently asked questions, a link to download the electronic transaction standards, and answers regarding HIPAA and Administrative Simplification provisions.

[www.dhfs.state.wi.us/HIPAA](http://www.dhfs.state.wi.us/HIPAA)

Contains Department of Health and Family Services HIPAA-related publications, a list of HIPAA acronyms, links to related Web sites, and other valuable HIPAA information.

[www.ncdp.org](http://www.ncdp.org)

Sponsored by the National Council for Prescription Drug Programs. Among other things, contains information on how to order the implementation guide and other documentation for the proposed retail drug claim standard: Telecommunications Standard Format Version 5.1 and its batch equivalent.

If you do not have a computer with Internet access, many libraries have Internet access for public use.

## What is HIPAA?

The federal government enacted HIPAA in 1996 to improve the portability and continuity of individual and group health insurance coverage in the United States. Among other things, Congress' intention was for HIPAA legislation to reduce the waste, fraud, and abuse in the health care industry.

During the development of this legislation, Congress also saw the potential to improve the efficiency and effectiveness of the health care system by reducing the cost of health care administration in the United States. The idea was to establish **standards** and requirements to facilitate the electronic transmission of certain health information. Ideas such as this led to the development of the Administrative Simplification provisions of HIPAA. At the heart of the provisions — now commonly referred to as the “HIPAA standards” — is the core belief that electronic data interchange (**EDI**) along with the standardization of **transaction** formats and data content will significantly reduce the administrative burden, lower operating costs, and improve overall data quality.

## What are the HIPAA standards?

The Administrative Simplification provisions of HIPAA consist of five standards. HIPAA legislation requires the Secretary of the federal Department of Health and Human Services (HHS) to adopt national standards for:

- Electronic transactions, including administrative and financial health care information (e.g., claims) and **code sets** (e.g., diagnosis codes, procedure codes, procedure code modifiers).
- Unique health care identification numbers for providers, health plans, and employers.

## Terms and definitions

<b>Code Set</b>	A group of codes with pre-defined meanings, such as <i>Current Procedural Terminology</i> (CPT), revenue codes, and diagnosis codes.
<b>Covered Entity</b>	Is one of the following: health plan, health care clearinghouse, or health care provider who transmits any health information in electronic form.
<b>Data Element</b>	The smallest named unit of information in the ASC X12 standards. An element is almost always defined as variable length and may be optional or mandatory within the data segment.
<b>EDI</b>	Electronic Data Interchange; Computer to computer exchange of machine-readable data in a standard format.
<b>Standard</b>	An agreed upon format for exchanging information electronically, may be either a National Standard or proprietary to one organization.
<b>Transaction</b>	The exchange of information between two parties to carry out financial or administrative activities related to health care, such as claims, remittance advice, or eligibility inquiry.

- Privacy and security of individually identifiable health care information.
- Electronic submission of claims attachments.
- Enforcement of the components of HIPAA.

## How are the HIPAA standards adopted?

Before the Secretary of the federal HHS sets a national HIPAA standard, a Notice of Proposed Rule Making (NPRM) is published. The NPRM outlines the proposal and gives the public the opportunity to comment. After comments are analyzed, the NPRM is revised and published in the Federal Register as a final rule. The effective date of the final rule is generally 60 days after its publication date. During this 60-day period, Congress has the opportunity to comment on the final rule.

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*The compliance deadline for Electronic Transactions is October 16, 2002. The compliance deadline for Privacy is April 14, 2003.*

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## When must the industry comply with the standards?

Once a final rule becomes effective, within the health care industry have two years, in general, from the effective date of the final rule to comply with the published HIPAA standard. The only exception to the compliance deadline is for small health plans. Health plans with less than \$5 million in annual receipts are considered "small" and, therefore, have 36 months to comply with the standards.

To date, the HHS has finalized the standards for Electronic Transactions, and, more recently, the standards for Privacy. The compliance deadline for Electronic Transactions is October 16, 2002. The compliance deadline for Privacy is April 14, 2003.

## Who is considered a covered entity?

Anyone transmitting or receiving electronic health care information, including all providers, is considered a covered entity and must comply with the federal HIPAA standards, including:

All health care providers, including one-doctor offices, who submit or receive any of the electronic transactions standardized under HIPAA legislation.

Health plans, including federal and state programs such as Medicare, Medicaid, BadgerCare, and HIRSP.

Health care clearinghouses, including billing services and vendors.

Am I considered a covered entity?

If you are a provider of medical services and you send or receive electronic health care transactions as outlined in the HIPAA standards, then you are a covered entity.

Health care providers have the choice to either outsource the formatting of their electronic transactions to a clearinghouse or modify their internal systems to support the HIPAA standards.

**Q.** Can I assume that my clearinghouse is going to make me HIPAA compliant?

**A.** No. You should work with your clearinghouse to ensure that they are working on the new electronic transactions. You will also need to understand what new data elements you may need to collect and submit to your clearinghouse.

Those who choose to outsource the formatting of their transactions are permitted to submit nonconforming transactions to their clearinghouse. However, it is the responsibility of those who choose to outsource to see that their clearinghouse properly formats and transmits a HIPAA-compliant transaction. Providers

working with a clearinghouse should contact the clearinghouse for verification that their systems will be HIPAA compliant by the October 2002 deadline.

## Is compliance voluntary?

No, compliance is not voluntary. **HIPAA is a federal law.** All covered entities, including most of Wisconsin's DHCFA-administered health care programs, must comply with HIPAA standards within the deadlines outlined above.

Keep in mind that while HIPAA does not require providers to transmit health care information electronically, it does strongly encourage the practice and the standards are designed to benefit those who do.

## What impact will the HIPAA standards have on the health care industry?

Once the HIPAA standards are fully implemented, the health care industry should begin to realize significant cost savings for the administration of health care information. By simplifying the administration and exchange of health care information, the HIPAA standards will:

- Streamline billing and administrative procedures.
- Reduce paperwork.
- Eliminate the need to maintain and submit multiple transaction formats to different payers.
- Allow claims attachments to be submitted electronically.
- Reduce unique coding structures.

**Q.** I am a provider and I submit paper claims. Do I have to submit electronic claims when HIPAA becomes effective?

**A.** No. You will still have a choice of submitting your claims either on paper or electronically.

However, while HIPAA does not mandate changes to paper claims, changes will be inevitable. Watch future *HIPAA inSight* articles for more information on this subject.

The list above focuses on the benefits of the standard for Electronic Transactions. It is certain that more

benefits will surface as new HIPAA standards are finalized.

## How do the HIPAA standards affect paper transactions?

It is very important to understand that although HIPAA legislation does not mandate changes to paper claims, changes are inevitable. While HIPAA legislation targets standardization of electronic transactions, *HIPAA will also affect many aspects of paper billing*, such as changes to coding structures and required **data elements**.

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## How do I obtain a copy of the HIPAA standards?

If you haven't already done so, it is important that you obtain a copy of the final rules for Electronic Transactions and Privacy. You should review the rules thoroughly to determine the effects they will have on your organization's systems and processes. The final rules define the requirements and standards that you must implement to comply with HIPAA regulations.

Both of the final rules, along with other valuable HIPAA information, can be found on the Internet at [aspe.hhs.gov/admsimp/](http://aspe.hhs.gov/admsimp/).

You may also order paper copies of the Federal Registers that contain the final rules directly from the United States government by calling (202) 512-1800 or by faxing your credit card information to (202) 512-2250. If ordering a copy of the final rule for Electronic Transactions, you must indicate the publication date of August 17, 2000. For a copy of the final rule for Privacy, indicate the publication date of December 28, 2000. You will receive the entire Federal Register for the day you indicate. The final rule for

Electronic Transactions is located in Part III, Department of Health and Human Services. The final rule for Privacy is located in Part II, Department of Health and Human Services.

## Suggestions

Providers are responsible for ensuring their organization's timely compliance with the HIPAA standards. We suggest that you:

- *Become familiar with the HIPAA standards.* You should begin to familiarize yourself with the HIPAA standards so that you can effectively analyze your organization's systems and processes to determine what needs to be done to ensure timely compliance. The Internet is your best source for HIPAA information. A list of Web sites is provided on the first page of this publication.
- *Prepare a gap analysis.* Identify gaps within your systems and processes by comparing the information you support electronically with the information that is required in the HIPAA standards.
- *Devise a plan to fill the gaps.* Determine where and how best to fill these gaps, so that your computer system is able to support HIPAA transactions.
- *Talk to your outsourcing organization.* If you use a software vendor, billing service, or clearinghouse, we recommend that you contact them regarding potential upgrades to their products. It is their responsibility to verify that their systems are HIPAA compliant.
- *Work with your associations.* If you are a member of a professional association, your association may have HIPAA information specific to your health care specialty. They may also have additional recommendations that you may wish to follow.

Watch for more *HIPAA inSight* articles as inserts to future *Wisconsin Medicaid and BadgerCare Updates*.